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A MID YEAR REVIEW OF THE ECONOMY 1980

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Prefatory

One limitation of a mid year review is that the events and areas under review do not in most cases belong to that year or part of the year in question. There is a cumulative inter relationship with similar or related facts and elements from the previous years that have to be probed in order to understand the current developments or immediate prospects. To that extent, there has to be a somewhat longer term analysis than that indicated by the term mid year review. Whether it be the current inflationary pressure that we will note at this mid year point, or the effects of the budget on investment, or industrial growth or stagnation, or the balance of payments prospects for this year, the quantities recorded during the first 8 or 9 months of this financial year offer little or no causative guidance, except as consequences of the related elements over the previous time path.

Another parameter to be noted in the review is that at this stage, the stated official policies, objectives and the terms used in connection with them are taken as given, in the sense that it is assumed that they mean what they state. The guiding policies stated in terms of growth, increasing investments, socialism, secularism, self-reliance, the priority sector for bank loans for small and marginal farmers, drought prone and back ward areas, and small scale and tiny industrial sectors, and the limits on big business and monopoly houses - all these will be taken as if they were really meant to be implemented. To the extent these terminological expressions of policies are not literally meant, the analysis of the information and statistics at this mid year point will bear an element of unreality. That, I assume, we are used to by now. Further I will in the review, as I have done in the past, use the traditional tools of economic analysis, assuming

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that such economic analysis will place before us both the current and immediate future economic profile and the options that we may choose from. I intend to return to these basic issues in the concluding section of the review.

This year's mid year review has, unlike that of last year's, the advantage of a series of fairly firm guide posts against which the review and perspectives ahead can be analysed, examined and as appropriate forecast. The Sixth Five Year Plan, 1980-85, Framework as approved by the National Development Council, the statement on Industrial Policy, July 1980, as presented to Parliament, the export policy, based on the Tandon Committee Report as modified and approved by the government and announced in Parliament, and the Import Policy for the year - all these provide a clear framework within which it is possible to set the current events and undertake the necessary prognosis in this review.

Plan

To start with, the Sixth Five Year Plan, 1980-85, Framework [1] maintains and represents basically continuity with the Draft Plan 1978-83 [2] that I summarised in the last two mid year reviews [3] as well as the Fifth Plan. It starts with setting forth 10 objectives for the Plan period, of which four are really objectives, namely

- significant step up in the rate of growth of the economy, the promotion of efficiency in the use of resources and improved productivity,
- strengthening the impulses of modernisation for the achievement of economic and technological self reliance,
- a progressive reduction in the incidence of poverty and unemployment, and
- promoting policies for controlling the growth of population through voluntary acceptance of the small family norm,

the others being important means of achieving these objectives (even in these objectives in the first and last one there is some mixing of objectives and means of attaining them). The only innovation to be noted in the objectives is that population control has been given a place among them

for the first time and this is rather important. The other 3 objectives are continuous with those set forth in the 1978-83 Draft Plan and other previous plans. From this can we conclude that there is a national consensus on our major planning aims - atleast terminologically?

The growth rate during the VI Plan proposed is 5 to 5.3 per cent as compared to the 4.7 per cent targetted in the Draft Plan 1978-83. To attain this overall rate of growth of the economy, it is proposed that agriculture should grow at 4 per cent per annum and manufacturing industry at 8 to 9 per cent. Here three general comments should be made. First the rate of 4.7 per cent proposed in the Draft Plan 1978-83 with the base 1978-79 when the growth rate was 3.5 per cent, according to the Economic Survey for 1978-79 which I quoted in the last year's review paper but which CSO has in its quick estimates corrected to 4.7 per cent.[4] becomes 5.3 per cent for the period 1980-85 with the base year at 1979-80 when the growth rate was -3 per cent according to Government of India's Economic Survey for 1979-80[5]. Second, whether it be the 4.7 per cent of the Draft Plan 1978-83 or the 5 to 5.3 per cent proposed for the VI Plan which are the same when the base year is shifted, these rates bear no relation to the actual rates of growth attained in the 3 decades of Planning. The economy registered a growth rate of 3.83 per cent in the fifties, 3.66 per cent in the sixties and 3.05 per cent in the seventies, - resulting in a 3.6 per cent compound rate of growth over the 3 decades of planning. The same kind of relationship may be noted with regard to the proposed agricultural growth rate of 4 per cent for the Sixth Plan against the realised rate of 3.5 per cent during the fifties, 2.6 per cent during the sixties and 2.4 per cent during the seventies, which is a compound growth rate of 2.8 per cent over the three decades. In regard to manufacturing industry, the fifties recorded a growth rate of [illegible].6 per cent, the sixties an average growth rate of 6.3 per cent and the seventies an average growth rate of 4.2 per cent; resulting in a compound growth rate of under 5 per cent[6] over thirty years against which growth VI Plan target of 8 to 9 per cent should be placed. A third comment is that the economic growth rate for the current year 1980-81 is likely to be 5 per

cent, starting from the -3 base of 1979-80, and the prospects of a bumper agriculture, with the kharif crop for 1980 alone likely to register an increase of over 20 per cent over the 1979 kharif. This forecast of 5 per cent overall growth for 1980-81 is the basis for the estimates of economic growth for the seventies referred to earlier.

The programmes proposed for the VI Plan are continuous with that of the Draft Plan 1979-80 on (a) the removal of poverty, where there is reference to the household as the target group (which may be another term for antyodaya), and a rather weak reference to land reform, (b) accelerated rural development with further emphasis on coordination, (c) employment which can gain strength considerably by drawing on the very carefully formulated plan in Chapter X of the Draft Plan, (d) agriculture, where irrigation is proposed to be increased by the same 15 million hectares as proposed in the Draft Plan, along with an unquantified oil seeds expansion sub plan, (e) industry and infrastructure in which the main contents of the industrial policy statement are (badly) repeated and targets for some goods, namely, steel, aluminium, cement, and nitrogenous and phosphatic fertilisers are given, which are lower than those proposed in the Draft Plan 1978-83, and where the implications for the suggested full use of the capacity of the industries and the additional capacities to be created do not seem to have been worked out adequately and consistently: also a good section on transport and energy, (f) human resources development which sets forth the population and the minimum needs programme, (g) education, (h) ecology and environment, (i) science and technology well amplified and (j) plan implementation. There will be an opportunity to deal with some of these programme proposals both as guide posts and in substance in the course of the review.

For this plan, it is proposed that the 5 year (1980-85) total outlay be Rs.1,69,845 crores at 1979-80 prices compared to Rs. 1,41,947 crores proposed in the Draft Plan 1978-83 at 1978-79 prices, of which Rs.1,56,000 crores represent investment. Out of a total outlay of Rs.90,000 crores in the public sector, Rs.76,500 crores represent investment and Rs.13,500 crores represent current development outlay. Consequently fresh private sector investment will be of the order of Rs.79,500 crores. There are a number of issues which need to be further debated, studied and clarified with regard to this.

order of total outlay. First since its formulation on the basis of 1979-80 prices, prices have risen by over 13 per cent upto October 1, 1980. This means that either the outlay will have to be further increased, the public sector's, for example, to Rs.100,000 crores, or the growth rates and targets lowered. Second the outlay is estimated on the assumption of an incremental capital output ratio of 4.5 - 4.6 which is the same as in the Draft Plan 1978-83. Without going into this technical issue at this stage, I would only point out that average capital output ratio in the public sector is 10.3 (in electricity and railways it goes up to 15), while in the private sector it is 3.2 - 4.2 (though here too there are high capital output ratio islands, like cement (7.6), basic industrial chemicals (7.1), while in most developed countries it is 2 to 2.50. This question is important in relation to our increasing investments and their productivity or lack of it, which will be discussed later. The Framework speaks of the "stabilising of the capital output ratio at reasonable level" and proposes certain measures to which I shall return in the course of the review. Third, there is also a question of the savings and investments magnitudes proposed in Annexure I of the Framework. The Draft Plan, 1978-83, for a growth rate of 4.7 per cent assumed a marginal gross savings rate of 35 per cent, raising gross saving as percentage of GNP from 22.3 in 1977-78 to 25.8 in 1982-83 and the gross investment percentage from 23.4 to 27.5. The VI Plan Framework has a marginal savings ratio of 31 per cent and lower gross savings percentage growth from 22.8 in 1979-80 to 25 by 1983-84 and gross investment ratio growth from 22.9 to 25.5. (These percentages are different from the RBI figures which I use in the section on savings and investment). The proposed 19.2 per cent increase in public sector outlay merely offsets the investment costs rise in 1979-80. There is need to reexamine the consistency or otherwise of the GNP targets and the investment targets. Fourth, there are a number of questions in relation to the estimate of financial resources in the plan period set forth in Annexure II. (To facilitate understanding, Annexures I and II are reproduced at the end of the note). The estimates of balance from current revenues and contribution from the public sector are on the high side, and one can only wish that the future record on both will be a turn away from the dismal present and past. The additional resource

mobilisation for the five years which is placed at Rs.19,150 crores (Rs.6000 crores from states, Rs.13,000 crores from the union) will require discipline and an extra effort. Apart from raising Rs.7,500 crores through taxes, the major means proposed is to reduce the Rs.12,400 crores outgo in subsidies during the Sixth Plan. I have now suggested this for the past 2 mid year reviews, and it can be done if there is the political will and strength to do so. In the first year of the Sixth Plan, the resources mobilised were only Rs.500 crores: the taxation of the agricultural sector is not mentioned: and the losses on irrigation during the Sixth Plan are estimated at Rs.400 crores, on the State Electricity Boards at Rs.3,000 crores, and on State Road Transport Corporation Rs.600 crores. These resources that are being lost can at least be stopped and saved, if the subisides for the poor majority is not touched. But the power and irrigation subsidies go in the main to the well-to-do-farmers, who, for instance, in Tamil Nadu have started an agitation against a recent law penalising the theft of electricity. Finally a word about the private corporate sector which is called upon, during 1980-85, to invest about Rs.13,200 crores a year from its savings, equities and term loans. Annexure II estimates the saving of the private non financial corporate sector at Rs.9,495 crores and that of private sector financial institutions at Rs.1,093 crores for the Plan period, which means that the private sector will have to raise Rs.2,118 crores a year. In practice the non financial private sector savings amount to Rs.950 crores per year and the private sector financial institutions savings are Rs.550 crores totalling Rs.1,500 crores per annum. This means that the private sector will have to raise an annual additional Rs.600 crores through various fiscal measures and changes in licensing regulations and industrial programmes. There is still another Rs.11,000 crores to be raised by the private sector "through corporate savings, new issues and borrowings from the public financial institutions", who have been given specific directions about raising their credit to the priority sector to 40 per cent etc. Further the large market borrowings and drawing on small savings, provident funds and term loans for public sector outlay amounting to some Rs.32,000 crores leaves little lee way for the private sector. Probably there is need to look at the capital market to make equities and bonds a more meaningful way of financing the private sector.

Budget

The 1980-81 budget and finance bill incorporate many of the Plan policies. They recognise a limit on the government's draft on the National Income, which the Plan Framework places for 1980-81 at 20 per cent; but this applied only to the tax revenue of the Union and State governments. The Reserve Bank's Report on currency and finance for 1978-79[7] points out that taking aggregate disbursements by the government on revenue and capital accounts, the drafts on the national income is very near 40 per cent. In the last 3 years, the rate of growth of government's drawal on GNP has been over 10 per cent which with low GNP growth - an actual decline in 1979-80, - has laid the basis for inflation. The budget itself otherwise has made no contribution to inflation: that contribution is by way of the petroleum products price hike, involving a yield of Rs.2500 crores which is 2.5 per cent of NNP, and the railways and IAC price hikes, involving a further Rs.220 crores took place outside the budget. However the budgetted deficit for the year of Rs.1,417 crores which by tradition will be exceeded, and to which should be added the uncertain effect of the reduction in the income tax surcharge, on top of the previous year's deficit of Rs.2,700 crores, (for the union and states Rs.3,100 crores), which together surpass the total deficit financing envisaged in the VI Plan framework for the plan period, is inflationary, except to the extent of its being offset by the adverse balance of trade and a real rise in the year's GNP. As far as the effect of the budget on the plan promise "to secure a substantial acceleration in the rate of industrial growth" at about 8-9 per cent, the Finance Bill embodies positive and negative elements. Industrial development will be fostered by the tax holiday concessions, the additional depreciation allowance for the first year of the plant and machinery installation, the tax deductible expenditures on R & D, and the limits placed on coverting term loans into equities: on the other side, the retroactivity of the tax holiday to 1968-72 based on profit and not capital, and equating gross income with net income, the higher cost of credit fuelled by the interest rate tax, together with the factors making for cost push inflation are elements retarding industrial growth during the year. There is the usual item on foreign aid and a new entry, IMF credit, which will be discussed later. The question

of a limit on the government's draft on national income leads to the question of public debt, which in the 1980 Appropriation Bill No.3 showed the repayment of debt - Rs.26,958 crores - as the largest appropriation item, to which the charged interest payments of Rs.2597 crores should be added.

Public Debt

India's public debt at March 31, 1979 is reported by the government at Rs.29,420.24 crores, including an external debt of Rs.9809.35 crores.[8] The Budget papers however estimate that at March 31, 1981 the internal debt will be Rs.29,315.05 crores and the external debt Rs.11,239 crores[9]. I have not had the time to analyse and reconcile these two estimates. Certain aspects of the public debt on the functioning of the economy may be noted. First, it shows that using the usual measure of the burden of public debt, (GNP), India is among the foremost countries in its public debt burden. Second,
(PB)
the rate of growth of our public debt is high - from Rs.2,054.33 crores in 1950-51, Rs.8,009.27 crores in 1965-66. Third, loans to states which acount for more than half of our total public debt comprise in addition to financing capital assets creation, a large share of over drafts cover and non plan expenditures, which points to the need for an overhaul of the centre-state financial relations. Fourth, our public debt when taken along with the impact of direct taxes has reached a point when it is tending to restrict investment, to lower the growth rate of national income, and through the increasing tax burden that debt servicing involves affects incentives, savings (of the lower income groups), income creation and entreprenuerial risk taking, leading to the sub optimal use of our resources. Further the year's public borrowings is a substitute for deficit financing in so far as it reduces private consumption and/or private sector investment, and might produce a contraction effect if funds for paying securities are used, depress security prices, raise interest rates, make sale of additional stock more costly to corporations and result in inflation, depending on the source of funds. In this sense the government borrowing from RBI is inflationary as it results in primary money creation.

Fifth, our external debt which has grown by an average 6 per cent a year since the Third Plan, involves debt service payments of amortisation and interest payments of Rs.882 crores in 1978-79, which is 70 per cent of gross aid receipts and 16 per cent of our export earning - which is a danger signal against the norm of 12 per cent (and not 20 per cent as referred to in the VI Plan Framework). Finally, there are also the social issues where the real burden of the public debt is that it involves a transfer of resources from the poor to the rich, from the old to the young. As far as I know there has been no public or parliamentary debate on our public debt problem, which needs to be examined from the point of view of (i) the volume, source and purpose of loans, (ii) interest rates, periods and mode of repayments, (iii) effect on investments, securities, income and employment creation and risk taking and (iv) inflation, fiscal and financial management and administration. Such a review is particularly necessary as in addition to our borrowing Rs.540 crores from the IMF Trust Fund which is shown as revenue in the current year's budget, we are borrowing a further Rs.200 crores from IMF's compensatory financing facility which demands investment in high returns sectors, and the further thought to be found in the form of a discussion in the VI Plan Frame of borrowing may be Rs.3,000 crores during the Plan in the Euro-currency market. If it is true that we have over Rs.1500 crores in the foreign loan (so called aid) pipe line, that should first be used before resorting to the high cost and high risk Euro-currency market.

Prices

Over last year's (1979-80) rise in prices of over 20 per cent, in the first 6 months of this year, April-October 1980, prices have risen by 13.2 per cent. My forecast is that for this year again, the price rise will be 20 per cent and that the government and the business world should base their planning on this forecast. The forecast includes a slowing down of the rate of the price rise. In analysing the complex of factors that are causing the inflation, money supply, or what is technically called demand pull factors, are still a factor, but not because the money supply has been increasing this year. On the contrary the growth rate of all the various elements of what the Reserve Bank calls 'broad money' or M_3 has been declining in the 6 months

April-September 1980-81. Currency with the public expanded by Rs.294 crores or 2.45 per cent against Rs.309 crores or 2.9 per cent during the corresponding 6 months of last year: demand deposits declined by Rs.762 crores (-6.6 per cent) against last year's expansion of Rs.442 crores (+3.6 per cent). Time deposits increased by Rs.3,030 crores at a faster 11.9 per cent compared to Rs.2,000 crores (9.7 per cent) in the first six months of last year. As a result, broad money, M_3 has expanded by only Rs.2,323 crores so far this year, that is by 4.3 per cent compared to the Rs.2,603 crores (6.1 per cent) expansion last year. During this year, all the armouries of the Reserve Bank, "Quantitative and Qualitative credit control policies, moral suasion, structural changes affecting the cost of credit and steps towards contracting the flow of Reserve Bank credit" were all deployed[10] to slow down money supply successfully. But the problem of money supply that we face this year is the result of the 66 per cent, Rs.5,000 crores, increase in money supply - between 1976-77 to 1978-79, the years in which there was price stability, so that there was building up a very high degree of liquidity in the economy which burst forth last year and continues this year. Another monetary factor operating is the budgetary deficit referred to earlier which can be judged by the fact that net bank credit (RBI and commercial banks) to government increased by Rs.2,894 crores to Rs.22,133 crores during the six months April to September 1980-81: last year's deficit financing of Rs.3,100 crores (for the union and states) was not only not matched by any increase of GNP, but by an actual decline of 3 per cent. These demand pull factors should be seen against the continuing shortages that are recorded in the price index in the first six months, April-October, of this year. The major price rises during the year so far are recorded in cereals (6 per cent), pulses (30 per cent), oil seeds (11.9 per cent), khadasari and gur (74.1 per cent) and tobacco manufactures (10.8 per cent) which together carry a weight of over 300 in a total of 1000. The rise in crude, petroleum and natural gas and fertilisers are referred to later under the cost push factor. One conclusion stands out. Internal shortages are playing an important a role as what is called imported inflation, following the OPEC rise in crude prices. Second, the cost push factors are now coming into play this year and will

increasingly do so. The increasing cost of petroleum products and railway freight is pushing up manufacturing costs by some 2 per cent so far: other manufacturing costs, that is raw materials, components, spares and stores, in a study in RBI's report on 355 large private companies for the period 1970-71 to 1977-78, are shown to rise by over 4 per cent, of which raw materials cost are more than half. Labour costs in this period declined as a percentage of total costs from 14.3 to 13.7.[11] These cost push factors have since accelerated: during the six months, April to September of this year 1980, basic industrial chemicals have risen by 10.6 per cent, metal products by 5.7 per cent, non electrical machinery 4.6 per cent, electrical machinery by 3.5 per cent and transport equipment by 3.4 per cent.[12] On top of all this there will have to take place during the current year an upward revision of administered prices of the 6 basic inputs of steel, cement, non ferrous metals, coal, drugs and pharmaceuticals and machinery and equipment, without which the hidden subsidising by the public sector of the economy and its continuing losses will continue. To meet these cumulative cost push factors and prevent their adding to the inflationary pressure, and to help slow down the rate of increase of price rises, there will have to be increased output by the industries concerned and their ancillaries and subsidiaries, which can take place only if the markets are broadened and the purchasing power of the consuming masses increased. This is the point to the agricultural, manufacturing and employment development in the coming months and the plan period, of broadening of the consumption market - to which the subsequent sections will be addressed. To sum up, to ensure that prices do not rise above 20 per cent during the year, which involves that its rate of rise is slowed during the second half of the fiscal year, there is need for (a) continuing check on the growth of money supply, particularly in bank credit to the government, (while allowing industry some further lee way in meeting its credit needs at somewhat less than existing penal interest rates), (b) increasing the supply of goods both industrial raw materials and essential consumers goods, which in turn will require increasing the purchasing power of the people and so widening the market base on which agriculture and industry can operate, and (c) taking full advantage of such developments, as

various attempts to unearth black money and curb the operations of the parallel economy, limiting the adverse balance of trade, promoting the higher savings rate, the withdrawal of Rs.2500 crores on petroleum price hike and cut back in non essential subsidies, along with widening the distribution net work of fair price shops as Kerala has done.

Agriculture

Unlike last year, the South West Monsoon has been satisfactory this year, with normality in 25 sub divisions (15 last year), excess in 4 subdivisions (3 last year) and deficiency in 6 (17 last year). This record is not as good as the 1978 rainfall, where the excess covered 12 sub dividions, normality 22 sub divisions and deficiency in just one sub division. As a result, the target of 135 million tonnes of food grains may not be quite reached: the actual is likely to be around 130-131 million tonnes as in 1979-80, which is well above the revised output for last year at 116 million tonnes, which was the Economic Survey forecast, and not the earlier Departmental forecast of 120 million tonnes. This year's kharif food grains output is likely to be 78-80 million tonnes, due to the increased sown area, from last year's 80 million hecatres to 84 million hectares, about half of which is paddy, using HYV seeds over half again of the paddy area. The problems in the food grain area are: (a) that future increases must come as the VI Plan Frame work points out from improved productivity and cropping intensity, involving further efforts in water management, pest control and post harvest technology: but this is being repeatedly said in our Plan and budget documents, but little is done to actualise it; (b) the productivity as measured by the growth rate in food production is subject to large inter-state variation - at 6.8 per cent for Himachal Pradesh, 6.4 per cent for Punjab, 6.3 per cent for Manipur, 5 per cent in Haryana and 4.2 per cent in Gujarat and 3.1 per cent in Jammu and Kashmir and Karnataka: so the problem of improved productivity is to raise the growth rate in the other 12 states and in some areas (DPAP for instance) in the former group of states; (c) improved water management as applied to the major low productivity states and areas means giving priority to minor irrigation, which in the Draft Plan 1978-83 was allocated only Rs.1400 crores out of the public sector outlay of Rs.70,000 crores: this also might be one means of alleviating the perennial problem that our major and medium

irrigation waters do not reach the small and marginal farmer; (d) cropping intensity becomes difficulty when the inputs - what the VI Plan Frame-work calls the area specific and vocation specific services - do not in fact reach the small and marginal farmer: this well expressed section in the Plan Frame-work on the service package to be provided to this group should be translated into action; (e) finally there is the need to develop the marketing net work and post harvest technology: on the marketing net-work - and this applies to all our plans to increase food crops and the commercial crops to be referred to later-, it must be emphasised that it is not only the setting up of technically sound cooperatives or regulated markets: the basic problem here is that unless the market is broadened and more of those now outside of the market come into the market, the agricultural growth that we are planning for, at the rate of 4 per cent in the VI Plan, cannot be sustained and will not materialise. Of course while our problems of hunger and under-nourishment are still unsolved, we can try to overcome the narrowness of the domestic market by producing for exports, as the Plan Frame seems in some sections to imply. Overall, the problem is not of further investment in agriculture, which contrary to the views of some, has been larger than in manufactures, at Rs.14,000 crores in agriculture and Rs.10,000 crores in irrigation. All this investment has by passed the small and marginal farmers, who are 70 per cent of all cultivators or the 60 million agricultural labourers. I have in past mid year reviews pleaded for agrarian reform. I still stand by it. In fact 50 per cent of our agricultural holdings of less than 1 hectare are operated by small farmers and labourers, while 4 per cent of our large farmers (10 hectares and above) own and operate 30 per cent of land. I have now given up on land ceilings, but I think there is still time to regulate tenancies, water use and wages. On post harvest technology referred to in the Plan Frame-work, there is an immediacy confronting us. According to the storage and research department of the Ministry of Food and Agriculture, due to inadequate storage facilities and poor handling, we are losing every year 10 per cent of our food-grains output, which is 12 million tonnes, equivalent to Rs.1,200 crores. The VI Plan Frame-work proposal for a net work of rural godowns cum post harvest technology centres should take account

the fact that 70 per cent of our foodgrains is retained by the farmer and only 30 per cent stored in government godowns.[13]

Returning to estimates of this year's production, one of the major bottlenecks is our oil seeds production which is around 86 lakh tonnes. Oil seeds production has involved a per capita increase of 1.6 per cent, and with the income elasticity of fat consumption, supply falls far short of demand. The VI Plan Frame lists 4 groups of oil seeds and states that we are tapping less than 25 per cent of our potential against which we should set the annual foreign exchange outgo of Rs.700 crores to import the needed edible oil. To cover this production gap, oil seeds need to be grown in irrigated areas, not as an independent crop, as it will not pay the farmer as much as paddy or cotton or sugar cane, but as an inter crop or as subsidiary crop. For the current year, given the good crop coming up in Gujarat and some set back that Tamil Nadu and Andhra Pradesh report (even as I am writing this note the rains have broken in Tamil Nadu and might help the crop), the groundnut crop is estimated at 48 lakh tonnes.

All commercial crops are doing well. In cotton , a bumper crop is expected for the year at 82 lakh bales. In making this forecast, I would once more emphasise the need to improve the official forecasting methodology, and close the statistical gaps arising from delay in official estimates of area and output, which led last year to the ludicrous experience of a first forecast of 75 lakh bales, a second forecast of 71 lakh bales and a later one of 82 lakh bales. The jute forecast for the year is a good 80 lakh bales, which is in addition to the 13 lakh bales held by the Jute Corporation and the four months stocks being held by the jute mills, to which the Jute Commissioner has further added by his October instruction. This year the jute farmers face a problem, as the jute export market is clogged and hence there is need for the jute farmer to be assured a fair price, for which the Jute Corporation should have more funds for procurement, and the strong position of the middleman trader reduced. This is not a new plea, as it is repeated year after year with no effect. The jute farmer in the East does not seem to have the political pull of the cotton farmer in the West. The forecast for sugarcane

this year is around 150 million tonnes, which would be 22 million tonnes more than last year's. This will certainly improve the supply position of sugar.

The decision on procurement prices has been announced for the year in early October for paddy (a rise of Rs.10 per quintal to Rs.105 and Rs.5 above the recommendations of the Agricultural Prices Commission (APC), for bajra, maize and ragi (a rise of Rs.10 per quintal to Rs.105, and Rs.7.50 above the APC recommendation); the support prices for sugar cane (a rise of Rs.0.50 per quintal to APC's recommended , Rs.13 linked to a recovery of 8.5 per cent), for groundnut (a rise of Rs.16 per quintal to Rs.206), for sunflower seed (a rise of Rs.8 per quintal to Rs.183) and for soya beans (a rise of Rs.8.23 per quintal to Rs.183 for the black and Rs.198 for the white varieties). It is difficult to comment on the basic adequacy of these price rises, particularly for paddy and sugar cane without information on APC's analysis of production costs. If the paddy cost figures of Tamil Nadu and other states are right, the announced price is below cost. Again unless the cane supply is beyond what has been forecast at the announced price, its continued diversion to khandasari and gur will have to be faced once more. And then there is the opposite side of the coin to these rises. What will be the issue prices? Will they be raised proportionately, for if they are not, the subsidy will have to be increased as against the VI Plan commitment to reduce subsidies. Finally there is the question of improved productivity not only in the crop output, but in the economies in handling the transport, turn over, and distribution at the needed consumption centres of the procurement operation, which ought to be passed on to the farmer rather than the consumer.

Manufacturing Industry

Manufactures in 1979-80 registered -1.5 per cent decline and in the first six months of the current year the picture has not changed very much. It is reported that industrial production index for April 1980 was -3.1 per cent compared to April 1979, for May 1980 -0.4 per cent and for June 1980, 0. The union ministry of industry also reports that as against this year's first quarter decline of 0.8 per cent, July registered a small rise of 1.9 per cent, which it states, is based on the production data of 148 selected industries. The

forecast for the year on the basis of the trend to date, and the individual industries performance to be reviewed later, is that the manufacturing and mining sector may register a small 3-4 per cent growth.

Almost as serious as the continuing stagnation is the fluctuation of the industrial output overtime and interindustry. Taking the seventies, it is seen that 1971 recorded 4.2 per cent growth, 1972, 5.8 per cent, 1973 1.6 per cent, 1974 2.0 per cent, 1975 4.7 per cent, 1976 9.8 per cent, 1977 5.3 per cent, 1978 6.9 per cent and 1979 1.2 per cent (followed by -4.3 per cent in January and March 1980). Inter industry growth shows similar variations, with capital goods growing from 105 in 1971 to 166 in 1979 and basic goods industries from 104 to 171, while intermediates grew only from 104 to 140 and consumer goods industries from 102 to 140[14]. Even when industry recorded a growth of 6.9 per cent in 1978, the Reserve Bank reports varying rates of growth for basic industries with a total weight of 32.28 which registered a decline in growth from 5.1 to 4.8 as did capital goods industries (total weight 15.25), from 5.5 to 2.1, while intermediates (total weight 20.95) and consumer goods industries (total weight 31.52) recorded increases from 2.9 per cent to 8 per cent from 6.4 per cent to 10 per cent respectively.

Some of the usual macro explanations offered for our poor industrial performance are of partial application only. One common explanation repeated by the Economic Survey, VI Plan Frame and the private sector documents is what is called infrastructural bottlenecks. But with the same output of coal as in 1979-80 and a little higher number of man days lost, 1978-79 recorded an industrial growth of 7.6 per cent. There were coal shortages and delivery delays in both years but that cannot be a major explanation of industrial stagnation or inter industry variations. Similarly with regard to the power bottlenecks, while hydel power was low, thermal power generation increased by 7 per cent in 1979-80, against as increase of a mere 2.8 per cent in 1978-79. Power shortages are a reality but not the whole reality. Similarly industrial sickness which is growing and all pervasive, ranging over large, medium and small units, and over all states and on which in last year's review I devoted a somewhat lengthy section, is again not even a complete explanation, it is more a manifestation

than a causal factor as in the high industrial growth year of 1978-79; bank advances to sick units increased to 15.5 per cent (in September 1978) from 13.8 per cent in September 1977 and the number of sick units increased from 270 in 1977 to 334 in 1980.

Poor capacity use is a real major factor to explain both our industrial stagnation and part of our high capital output ratio. In the manufacturing industry the average capital output ratio has over the past three decades deteriorated by 22 per cent and in the small scale sector surprisingly by 74 per cent. On the other hand, the following capacity use is recorded in basic industries - sulphuric acid 68 per cent, steel castings 42.9 per cent, aluminium sheets and circles 63.3 per cent, in capital goods industries - motor vehicles 68 per cent, power transformers 68 per cent, electric motors 55 per cent, in intermediates - dry cells 68 per cent, tubes (cycles) 50.7 per cent, ceramics 55.4 per cent -, and consumer goods, vanaspati 50.4 per cent, hurricane lanterns 69.3 per cent, leather footwear 61.5 per cent. In general unlike as in the growth rate records, basic and capital good industries register poor capacity use, while intermediate and consumer goods industries are doing much better.[15]. In the public sector poor capacity use is recorded in the Durgapur, Bokaro and IISCO steel plants, in coal and other minerals and metals, in opthalmic glass, heavy plates and vessels, MAMC scooters, newsprint, fertilisers and pharmaceuticals. It is not surprising that the VI Plan Frame as well as the current year's budget lay such heavy stress on fuller use of capacity to attain an improved capital output ratio and industrial output and growth.

The major reason for our poor industrial performance is low state development expenditures in basic and capital goods industries which must now be stepped up. It should be borne in mind however that the usual indices of improved investment climate or industrial activity could be misleading. For instance, letters of intent are reported to have increased from 440 in 1978-79 to 550 in 1979-80 and industrial licenses from 348 to 365. Again there seems to be no straight relation between the volume of bank credit to industry and the rate of

of industrial growth. In 1977-78 when there was 3.3 per cent industrial growth, bank credit to medium and large units increased by 13.2 per cent. In 1978-79 when industrial growth was 7.6 per cent, bank credit to the units increased by 14.1 per cent. In 1979-80 when there was minus industrial growth, bank credit to the units expanded by 7.8 per cent. At bottom, this traces back to what has been referred to earlier, the narrowness of the domestic market to stimulate and sustain industrial growth. The RBI January Bulletin in its study of Industrial growth in the seventies refers to the varying low growth rates of the 4 groups of industries referred to earlier, and in particular to the even lower rates within each group of items in common demand as for instance for yarn, cotton textiles, tea, edible oils in the consumption goods industries, cotton spinning and cycle tubes in intermediates, and railway equipment and heavy vehicles in the capital goods sector. This trend of low growth of goods in common demand means that the growth generation in the rest of the industry will be and is limited. In this connection there are parts of the VI Plan Framework and the Statement of Industrial Policy which seem to promote for the coming years a capital intensive and import intensive industrial development, and propose inferentially meeting the problem of the limited and domestic market not by broadening it, but by producing the kind of non essential goods for export which are in demand abroad. This is the kind of soft and unsocial option that we need to guard against.

One more general issue that the industrial sector must face, and that is its financing. Reference has been made earlier to the fact that the banks and term lending institutions are likely to have less resources for investment in the private corporate sector, while meeting the calls of public sector finance, government borrowing and credit and the 40 per cent reservation for the priority sector. There is need for the corporate sector to generate its own funds to finance a large part of its modernisation and expansion. This will involve first more effective use of the loans, particularly in regard to inventory accumulation, through modification of the tax structure on which there are 2 proposals - discontinuing the tax deduction on interest provisions which will ensure effective use of borrowed funds, or a 1 per cent tax on total

capital employed. And then to increase its access to resources, the household sector should be encouraged to invest in equities and debentures. This means that dividends should be increased by enabling the maximum of profits to be distributed as dividends and not be ploughed back. This is difficult because as the RBI study of some 1650 companies show unless equities can raise at least the equivalent of the 1974-75 retained profits of Rs.419 crores and 1975-76 of Rs.304 crores, this proposal will be a non starter for the private corporate sector. Also it is estimated that to pay 12 per cent on equity, the firm will have to earn over 30 per cent. This makes term borrowing for the sector cheaper in the short run, but is against the interest of maintaining a viable private sector in the long run. From this point of view, the further use of convertible debentures and bonds with regulated and planned quantum, timing and pricing of conversion, and the appropriate interest rate should be further explored, as some successful issues this year have demonstrated.

Some of the individual industrial areas may now be briefly reviewed.

Steel: The position of the steel industry is disquieting at this mid year point. First, against the year's target of 7 million tonnes for the integrated steel plants and the VI Plan overall steel target of 7.4 million tonnes, the five public sector steel plants report that this year's production will be only 4.4 million tonnes - involving a disquieting short fall of 1.3 million tonnes over its planned production for the year, due to supply shortages of coal and power. This means that the total production of the integrated steel plants including TISCO's 1.1 million tonnes for this year will be 5.5 million tonnes. Second, a disturbing decelerating production trend of the integrated plants of this vital industry should be noted, with 7.4 million tonnes in 1976-77, 6.9 million tonnes in 1977-78, 6.6 million tonnes in 1978-79, 6 million tonnes in 1979-80 and 5.5 million tonnes estimated for this year. Third, this year's steel shortfall cannot be made up by imports, (apart from such action more than doubling the planned steel imports and their foreign exchange outgo), because not only the factors - power and coal shortage - making for steel production shortfall will produce similar decreases in industry generally, but even the backward

and forward linkages of this industry are such that the demand of the other steel using units may decline, making any additional imports unnecessary. Fourth what is at stake in this decline of steel production this year is a dragging down of the year's industrial growth rate, making it unlikely that the year's overall economic growth target can be met. Even now it is not too late to mend this disastrous state of affairs. DVC, which has produced 1000 MW in the VI Plan years but is now down to 400 MW and that too constantly interrupted by disputes, can be put on the rails by wise and firm management. Coal exists in plenty and coking coal can be imported at short notice. The integrated steel plants must be made to attain their target for the year. Finally there is the question of steel prices which shows little understanding of the capital intensive nature of the industry and which is being used to subsidise the economy at the cost of both the health and growth of the industry. The normal cost pricing with some allowance to shadow prices is necessary so that both government and other industrial users of steel realise the scarcity value of the funds put into this industry. That will also meet the problem of the growing losses for which the industry is constantly criticised. (Against an anticipated profit of Rs.19 crores, SAIL has just announced a loss of Rs.71.15 crores for the first quarter of the current year, - though its announcement blames erratic power supply and does not refer to the 'real' cause, namely, steel prices). And this out-dated and outworn pricing - the retention and selling ones - are making the industry's plant and equipment every day more outdated and is holding up the necessary modernisation, as TISCO knows to its cost. This does not negate the imperative of maximum capacity use which is a first priority, and the choice of a product mix dictated by the social priority accorded to part of its products, such as heavy plates, structurals and railway lines.

Machine tools, textile machinery and railway wagons: Looking at three of the related sectors, the machine tools has developed to meet 80 per cent of domestic demand and for the nine months, January to September 1979, produced Rs.115 crores of tools and exported Rs.11.57 crores. The problems facing the industry are: inflation resulting in high costs of inputs at Rs.40 crores, with exports below Rs.20 crores, a low capacity use in its unorganised sector, shortage of metals

for castings and additional investments of about Rs.100 crores to raise its capacity to around Rs.300 crores. The most serious problem faced by this industry is the need to assist the small and tiny units in the unorganised sector with designs and methods by the Central Machine Tool Institute and the impact on these units and sector on the continuing decline in engineering goods production output. Here exports may for the present be the answer. In the case of the textile machinery industry, there are issues that demand attention. First, the rate of modernisation in the industry is slower than need be: of the Rs.418 crores for this purpose sanctioned by IDBI as at 1978, only Rs.53 crores have been used. Second, related to the above is the demand of textile mills for imported machinery, which is being officially encouraged, and the demand from the 3 well known producers of the machinery in the country. Third, and as a result, apart from these three firms, the industry is working to 50 per cent capacity, retarding modernisation, and leading to steep increase in the price of machinery and costs over-run of the modernisation schemes. The IDBI when sanctioning the loan can help spread the indent and supply to increase capacity utilisation of the industry as a whole. In the railway wagon industry, which holds the key to the fairly widespread complaint of wagons shortage, the number of producing firms today is about half (9) of those in the sixties with only 40 per cent of their capacity of 28,000 units in use. The reason for this, as pointed out in the last mid year review, is the declining rate of railway wagon purchases by the railways which in 1979-80 planned to purchase 11,500 initially, raised it to 21,000 in April, reduced it to 13,000 in December and actually purchased 8,500 units. The Draft Plan 1978-83 target is 73,000 but the provision in the railway budget for this year is a mere 7,000. What the industry and the country need is adequate resources for the railways to use the wagon capacity of the industry.

Sugar: After this past year's poor production and distribution record in sugar, the shooting up of its prices, and the switching between partial control, decontrol, and parallel control, it is estimated that sugar production in 1980/81 will be 60 lakh tonnes, though sugar interests have been referring to 70 lakh tonnes, along with suggestions for an export quota. The government's proposal

for a quota under the International Sugar Agreement of 1 million tonnes for the next 3 years is, to say the least, somewhat premature. The higher levy free quota for new sugar units under the revised incentive scheme announced in October will increase capacity, but will also call a new sugar cane policy to ensure that the mills so set up receive regular and adequate cane supply. In this connection, with last season's grevious experience, and given the fact that even now the farmers' incentive to grow cane is limited (at the end of March, the mills owed the sugar cane growers Rs.77 crores) and the continuing attraction of khandsari the proposal for a buffer stock should be given priority over exports. The proposal to build a buffer of 15 lakh tonnes both to meet future shortages and to disperse it over the country to prevent speculation and forward trading in sugar is sound. On the basis of the study carried out by the Bureau of Industrial Costs and Prices, it is expected that the levy sugar price will be raised for the coming season, and Parallelly free sugar prices will decline.

Cement: Cement production last year declined to 17.4 million tonnes, but if its problems are resolved to some extent, this year's production should be around 20 million tonnes, given the fact that at the start of this financial year cement capacity has increased to 24.99 million tonnes. In the first two months of this year, capacity use had declined to 75 per cent. The two major problems faced by the industry are power shortage and the unviable retention price. Power shortage has been acute - to the extent of 100 per cent in Rajasthan, 63 per cent in Bihar, 25 per cent in Madhya Pradesh and 15 per cent in Maharashtra and Andhra Pradesh. The industry should be given prio priority in power supply, as the cost of imported cement is high, and the alternative of allowing the plants to set up captive generating sets is not possible with the crude prospects facing the country. The second problem is price: while the price of imported cement is Rs.820 per tonne, the retention price of indigenous cement, (which bears no relation to its freely available black market price) is Rs.205 per tonne. The internal price needs to be raised to cover cost plus.

Energy

With the stoppage from that source of three-fourths of our crude

supply following the Iran-Iraq hostilities and the possibility that the 12 million tonnes (out of a total import of 16 million tonnes) will not be available for the balance of this year atleast from these two countries, there is need to put into practical effect an energy policy, if industry and the economy are not to be overtaken by yet another problem. To start with we need to recall that (a) our energy intensive industries are (i) textiles, (ii) fertilisers, (iii) inorganic heavy chemicals, (iv) pulp and paper, (v) non ferrous basic metals, (vi) iron and steel, and (vii) cement which consume 65 per cent of our commercial energy and produce 35 per cent value added; (b) except in coal, we have lower energy efficiency than any other country and the highest per cent energy consumption; (c) for the past four years the growth rate of petroleum consumption — 7 per cent in 1976-77 and 1977-78, 10 per cent in 1978-79 and 8.6 per cent in 1979-80 — has been much faster than the rate of industrial growth; (d) in fact crude and its products have been substituted for other forms of energy such as coal, diesel consumption increasing by 12 per cent in 1978-79 and 16 per cent in 1979-80 due to diversion of even low freight like coal from railways to road traffic and the unfortunate increased use of private generating sets run by diesel. Under these conditions, I propose an emergency energy policy (replacing the recommendations of the 1974 Fuel Policy Committee which faced only the first OPEC price rise and even the recommendations of the 1977 working group on Energy Policy) involving: 1. <u>On crude oil</u> (a) maintaining this year's crude oil consumption at that of last year's 29 million tonnes and slowing down the growth rate of its consumption so that it reaches the 36 million tonnes at the end of VII Plan 1989-90 which was foreseen at the end of 1982-83 in the Draft Plan which involves (i) placing a ceiling on crude oil consumption on the 7 oil consuming industries and subjecting them to an "energy audit" as proposed in VI Plan Framework; (ii) replacing oil by coal in industry in all possible ways; (iii) saving on use of fuel oil in accordance with the recommendations of the Petroleum Conservation Research Association of the Government of India; (iv) saving of 20 per cent in the HSD consumed by the transport sector through proper maintenance of the vehicles, uniform driving speed, elimination of Octroi where idling occurs, and shifting much of the freight carried by road transport to railways, (v) a further "judicious pace" in the

mechanisation of agriculture and speeding the Rural Electrification programme so that there is switch over to electricity for pump sets, (vi) slowing down the establishment of non-essential energy intensive industries and/or placing a capacity limit on energy intensive units to slow down their contribution of inputs to nonessential production, (vii) pricing oil energy so that the continuing subsidy in petroleum products prices is ended and the petroleum products so priced as to ensure conservation and optimal deployment of this scarce resource, and (viii) expanding of domestic oil production both through further drawals from existing wells but even more by opening new wells onshore and offshore with the help of international oil companies so that by the middle of the VI Plan at least 1 million tonnes per annum from these new wells will be available in addition to the current 13 million tonnes. 2. <u>On coal</u> This is one of the few areas where during the first six months of this year there has been an increase of about 12 per cent at 54 million tonnes. In view of the energy crisis facing the country, there is need to aim at a rate of productions growth that will bring forward the perspective plan estimate of 275 million tonnes to the end of the VI Plan. Such a coal expansion programme should be accompanied, as noted earlier, by a deliberate policy of substituting coal for fuel oil in industry, and slowing down the increasing diesalisation of the railways and replacing it by coal driven engines. The price of coal should be raised to cover its production cost and the normal return. 3. <u>On electricity</u> Against the country-wide electricity shortage averaging 16 per cent last year, this year's hydel generation has improved since July 15 by 5 per cent, and, except for Bhakra and Beas, all reservoirs are satisfactory - Koyna, Sharavathi, Hirakud, Nagarjunasagar and Idukki. Thermal generation capacity which has increased by 12 per cent during the last 3 years can perform well if coal of adequate quality is made available to the thermal plants, if there is a 20 per cent increase in their capacity use, along with adequate maintenance, non interference in technical and managerial responsibilities of the plants, and a reduction in transmission losses. The annual increase proposed in VI Plan of 4,000 MW can be attained if the gestation periods are reduced. Nuclear energy should double its contribution by VII Plan end. Above all electric energy must be properly priced at levels that lead to its economic and efficient use. 4. <u>On non-commercial and non-</u>

conventional sources. Kerosene and diesel can to a large extent be replaced by replaced "setting up bio-gas plants (a community one in every village) and energy plantation under the intensive forestry programme, using waste land and appropriate timber species which grow rapidly" as proposed in the VI Plan Frame. Here it should be noted that the major energy source for our rural people is bio-fuels and this is a start and tradition on which we should capitalise. Solar energy should be ready to be used for domestic purposes by the end of the VI Plan and it's use in irrigation should be pursued. Cost effective wind mills for pumping and power generation are on the drawing board and should be developed and R & D on geothermal and tidal energy should be pushed.

Savings and Investments

One of the major issues concerning the economy and its growth under wide ranging discussion in the country is our savings and investment rates. In view of the detailed information on them published by the Central Statistics Organisation, the Reserve Bank of India and the Planning Commission, I wish to revise my presentation of the issue in the last three mid year reviews and start all over again afresh. The country's savings and investment are variously presented by the 3 agencies in gross and net terms, as a percentage of Gross National Product, or Gross Domestic Product or Net Domestic Product or Net National Product and at current prices and constant (1970-71) prices. Without entering into the technical issues involved, I shall present the savings and investment of the country as a percentage of Gross National Product (GNP) and Net National Product (NNP) at market prices as reported by the Reserve Bank of India and the previous Planning Commission, because our base point is the national product inclusive plus or minus of factor incomes earned abroad or remitted abroad. As a reminder, for our discussion, I shall add the GNP and industrial growth rates as the last two colums. (See table on page 26). Certain questions arise from the table of our savings - investment rates over the seventies, particularly since 1974-75, in regard to the economy.

	Percentage of GNP (at market prices)			Percentage of NNP			GNP Growth rate	Industrial growth rate
	Savings	Investment	Foreign flow	Savings	Investment	Foreign flow		
1970-71	16.9	17.9	1.0	12.3	13.1	1.0	6	4.2
1974-75	19.1	20.0	0.9	14.6	15.6	1.0	1	2
1975-76	20.7	20.6	-0.1	16.1	15.9	-0.2	9.2	9.8
1976-77	23.0	21.4	-1.6	18.4	16.7	-1.7	1.4	5.3
1977-78	22.9	22.3	-0.6	18.3	17.7	-0.6	7.4	6.9
1978-79	24.6	24.3	-0.3	19.9	19.6	-0.3	3.5	7.7
1979-80	23.5	24.8	0;6	18.8	19.4	0.6	-3	-1.5

First the country which started its Plan in 1950-51 with savings of 6.8 per cent of the National Income and investment of 8.4 per cent, and gradually moved to 16.9 per cent of savings and 17.9 per cent of investment by the start of the seventies, has since 1975-76 passed the 20 per cent mark for both. The highest was in 1978-79 when savings was 24.6 per cent of GNP and 19.9 per cent of NNP and investment 24.3 per cent and 19.6 per cent respectively. These are rates of savings which are not associated with a developing country, but with industrialised countries, or if they are taking place in a developing country, then that country is at the stage of, what economists call, take off.

Second unlike upto 1975-76 when our savings were always below our investments so that there had to be an inflow of foreign funds to make up the difference, for four years continuing from 1975-76 to 1978-79 there has been an excess of savings over investment, leading to an outflow of capital from the country. (Incidentally the Reserve Bank's Annual Report and Currency and Finance Report for 1978-79 showed, unlike my estimate in last year's mid year review, a surplus of 0.2 per cent of investment over savings which is corrected in the RBI's Annual Report for 1979-80 as in the above table). As I pointed out in the last mid year review, this continuing surplus of our savings over our investment marks not only the current account surplus upto 1977-78 and the continuing increase of our foreign exchange reserves in the current

account deficit year 1978-79, which we have not been able to invest: it is also a pointer to our structural rigidities to which I now turn.

Third, these past five years of high savings rates have not been accompanied or resulted in, as they should have, either in a high economic growth rate or a self sustaining industrial development growth. The last but one column shows that in 3 out of the last five years, the overall growth rate was 1.4, 3.5 and -3 per cent, and for the decade ended at a low 3 per cent as noted earlier in this paper. As far as industrial growth is concerned, the last column shows a seriously fluctuating rate for the last 5 years, rather than a steadily rising and self reliant industrial growth, which is usually associated with savings at 20 per cent of GNP and above. There are some explanations offered to explain this contradictory set of facts, - high savings and stagnant economy and low industrial development, - which are only partially applicable, if at all. One is to query the very basis of the estimates of savings by CSO and the Reserve Bank: the estimates do need continuing analysis and scrutiny but the methodology used is the accepted one the world over, and is sound. Second, it is pointed out that there are some unusual elements since 1975-76 which have pushed up the savings estimates, such as the revised accounting classification of the public sector savings which increased the estimates, the forced savings known as the compuslory deposits scheme, and the high foreign remittances during this period which pushed up savings and which are not a permanent long term feature of our economy. Here again these unusual factors must be taken into account, and that may reduce the savings ratio by 1 or 2 points. But even so, that there has been a real break-through in savings is generally accepted. Before dealing with the question why high savings rates have not led to high economic and industrial growth, there is one more feature to be noted.

And that is fourthly, the main reason for the high savings rate has been a rather steep increase in the savings of the household sector. The total savings of the country is composed of (a) savings of the public sector which has ranged in this period of the past 5 years from 3.7 to 4.6 per cent of NNP, (b) savings of the private corporate sector which has ranged from 0.4 to 1.2 per cent of NNP, and (c) savings of the household sector which has shot up from 9 per cent

of NNP in 1970-71 to 15.3 per cent of NNP in 1978-79. It will be recalled that I called attention in last year's review to the then Planning Commission taking into account in its resource estimate of this spectacular increase in household savings, and attributing the increase in the savings to "irrigation structures, farm and fishery equipment, village industries equipment, transport equipment etc". The other explanations include those by the Reserve Bank which refers to "the sizeable procurement operations in the wake of increased agricultural output, family remittances by nationals working abroad and disruptions in the banking services" to explain the more than doubling in household currency savings from Rs.693 crores in 1977-78 to Rs.1,512 crores in 1978-79, as it explains the small decline in domestic currency holdings in 1979-80 as being due to the fall in purchasing power following the sharp decrease in agricultural production and the declining industrial profile for that year. Further it is pointed out that during the last five years, the inequalities in income distribution have increased so that the rich have been able to save more, that inflationary financing has led households to save more, and that the terms of trade in favour of the non-farm sector have increased non-farm savings. (See the RBI evidence of the growing share of profits and NSS report of fall in the consumption level of the lower income groups). There is thus a mix of factors operating to push up household savings.

And now, finally, turning to the question as to why this increased savings and investments have not led to commensurate economic or industrial growth and whether the VI Plan framework's assumption is realisable, of gross domestic savings going up from 22.8 per cent in 1979-80 (this is an error;the year is 1977-78) to 25 per cent in 1984-85 (which is a lower growth rate than that in the Draft Plan 1978-83) and the gross investment from 22.9 per cent to 25.5 per cent. The reasons why the high savings and investment rates have not led to growth are many. First, the inflow of foreign remittances during these years was not used to step up public or private sector investment. The International Monetary Fund in a study calls attention to India having failed to mobilise these savings which came in at the rate of $15,000 per Indian immigrant (which was 10 times the country's per capita GNP) and which was instead invested in land, jewellery, buildings and liquidation of debts[18]. Second, some of the increased

savings and investment went in inventory accumulation - not only by the private sector but also by the public sector, in coal, jute, cotton, as well as by the household sector in increasing its share of physical investment. Third, the high investment rates also reflected the high price of investment goods which the index numbers show rose by 2 per cent but which firms report at a much higher rate and is confirmed by the fact that while the GNP deflator for these years rose by 6.4 per cent, the investment deflator rose by 9.8 per cent. Fourth, this also accounts for the high incremental capital-output ratio (ICOR) which in our country stands at an average of 6.2, while in other countries it is around 2 - 2.5. Vijay Kelkar works out the deterioration of our ICOR over 3 decades by sector.[19]

	Agri-culture	Pri-mary	Secon-dary	Manu-factu-ring	Regis-tered	Unregis-tered	Electri-cal gas etc.	Tertiary	All
1950-51 to 1955-56	1.91	1.95	4.17	3.91	5.50	1.25	17.86	6.75	3.62
1974-75 to 1976-77	12.31	8.60	6.70	9.28	11.94	5.24	13.74	5.19	6.21

ICOR is however not an independent factor but is a reflection of our inefficiency and wastage in capital use, disproportionality in our production structure and our import of inappropriate technologies and not adapting them to our use. Finally there is the narrowness of the domestic market which makes the profits levels of many of our firms low and does not attract investment. The moral is that we can and should move on two fronts to revive our economy and stimulate industrial growth with our overly large savings: first improve the efficiency of our capital use - in fuller capacity utilisation, shorter gestation periods, less costly and more adapted technology imports, and more effective management; second, widen the market in every way possible, so that productive investment becomes also profitable investment.

<u>Foreign Trade</u>

Our foreign trade profile at this mid year point is not too good. In the first 3 months of the year, April-June 1980-81, exports recorded Rs.1,548 crores which was an increase of 5.9 per cent, while imports were Rs.2,536 crores,

an increase of 25 per cent. This over fourfold rate of increase of our imports over our exports could result in (a) the year's trade deficit being Rs.4,000 crores, compared to last year's Rs.2300 crores, and (b) not attaining our Rs.7,100 crores export target. I wonder if the time has not come to establish for ourselves also an import target. I have pointed out in past reviews that it is not our trade deficits which are worrisome because such deficits are (a) part of the structure of development, (b) can help build needed buffers, and (c) can be a counter to inflation. It is the nature, composition and direction of our exports and imports that are worrisome. There are several exogenous causes for our continuing poor foreign trade performance. At the top is imported inflation, where import prices have risen over 100 per cent in the last five years fuelled largely by the non system which IMF operates. The crude oil bill is in front and is mounting, as it now forms 50 per cent of our imports, and with petroleum products could cost us Rs.5,000 crores. As noted earlier, there still seems no public or even official realisation of the seriousness of this factor and a policy to deal with it. The other exogenous factors operating on our foreign trade are the growing protectionism, quota restrictions and quality control of the industrialised countries (precisely in those areas like textiles, or jute carpets or industrial fasteners or engineering goods where they have a comparative disadvantage) about which IMF despite its charter directives has done nothing, the slow growth of world trade at 2 per cent in value and 7 per cent in volume terms in 1979 according to GATT, the appreciation of the Rupees in terms of US dollars, the slackening pace of development in our newly opened by Gulf Markets, and the fall in international prices of some of our major export items such as leather, coffee, tea, tobacco etc.

These exogenous factors are in a sense given, and our negotiations at the Interim Committee of IMF or GATT or bilaterally as with the countervailing US duties on textiles may yield some results hopefully soon. I have doubts however whether we in India and the Third World understand the full implications of the complete break down of Bretton Woods for our economy and development as we have not come up with an agreed alternative or atleast forced the industrialised countries to setting up the machinery to work out the alternatives. In the meanwhile we continue to rely on the annual massive US deficit to provide our

international trade with the needed liquidity - (what is called the Triffin Dilemma).

I believe however that our major problems are internal. The base of the Tandon Committee recommendations, as accepted by the government and on which it should now act, is expansion of our industrial production, removal of our production constraints in coal, steel, cement, electricity, shipping bottlenecks etc. and as the Agarwal Committee also recommends, changes in licensing procedures, capacity growth, customs, excise etc. There is no reason why the demand for edible oils and the increased production of oil seeds which meeting that demand involves should not be met from within the country. And then there is the general high cost structure and high prices of our industrial products which our protectionist walls and the system of subsidies (that I have been calling attention in every mid year review) feed into. On this basis, without going in for an export oriented development strategy, which some of the actions of government such as removing all taxes, regulations etc. for export oriented firms located not only in the so called export free zones like Santa Cruz and Kandla, but located anywhere in the country seem to suggest: rather an export policy based on export of goods in which we have a dynamic comparative advantage, and in which the backward linkages are strong and well developed could and should be formulated and applied. That will also be consistent with our agreed goals of poverty eradication, employment generation and non-inflationary development because the present export policies that are being daily announced seem not to take account of the trade off with these national objectives that is involved.

Then there is the import policy - the so called liberalised import policy which we have been following despite our mounting trade deficits over the last two and a half years. It is good that faced with the crude import drain and the falling remittances trend, the government has decided to review its plan to finance liberally imports with Rs.1000 crores drawn down from our foreign exchange reserves. With the forced repatriation of our workers from Iraq and Iran following the war, there is need to reappraise our foreign remittances prospects. But there is more involved in our import policy which needs looking into. An

analysis of our current imports show an imbalance in its composition - 70 per cent of our imports are maintenance imports - with vegetable oils in the lead as well as metals, chemicals, man-made fibres -, and only 30 per cent are capital goods imports. Even in the case of the maintenance imports that were justified on the grounds that we had growing foreign exchange which could be drawn down to meet the demand for goods in short supply and so keep down prices, the absence of appropriate arrangements for their quick distribution has nullified the expected beneficial effects, as the Reserve Bank's Annual Report for 1979-80 points out. Again of the maintenance imports, some part of the metal imports are said to have been used for speculative inventory building. Of the 30 per cent capital goods imports, it is necessary to examine their content to see if, as in the case of the textile machinery imports cited earlier, they are not hurting the relevant domestic capital goods industry. Now that the era of easy and relatively plentiful foreign exchange has ended, (the Reserve Bank reports that at June 1980 our foreign currency assets declined by Rs.571 crores compared to the increase of Rs.828 crores at June 1979), the options facing us in regard to imports and exports are the same, - namely, to expand our production base of consumer goods, intermediates and capital goods, economise on our wasteful use of energy, and of course push promotion drives inthe foreign markets.

Employment and Labour

On the employment front, there is nothing new to report, the most comprehensive statement on employment being Chapter X of the Draft Plan 1978-83 Revised, which reports a labour force of 273 millions with the 4.4 million unemployed, 26.49 million in recorded employment, and 241.98 million in informal activity. There is no information about the status of unemployment at this mid year point. Job seekers registered in Employment Exchanges increased from 136 lakhs in December 1979 to 147 lakhs in March 1980, with the educated unemployed being over 30 lakhs - to employ whom, it has been computed that industrial production will have to increase by a 10 per cent annual compound rate. The Sixth Plan Frame does not add to this information, except to start its employment section with the significant remark that it is "inadequate purchasing power rather

rather than non-availability of food in the market" that is the cause of under nutrition and malnutrition, and emphasises the integration of employment in development, and goes on to state that "normally only that activitiy should be regarded as employment which results in value added at least equal to the wage paid". The problem with wages in the informal or unorganised sector which is the majority sector is that they are so low, which is the problem of our poor who are the working poor, that this equation can be attained and yet there can be serious underemployment which is indistinguishable from unemployment. The study of the Planning Commission's Programme Evaluation Organisation of Maharashtra's Employment Guarantee Scheme in 1978 shows that against the average expenditure per manday Rs.6.50 in 3/5 of the villages, the general average expenditure was Rs.4.50 - Rs.5.50, to which the following leakages and malpractices should be added: use of contractors for hiring workers and for foodgrains distribution, inflation of muster rolls, delay in supply of food grains, under payment of wages, supply of inferior quality foodgrains, and actual sale of foodgrains to finance purchase of crockery and furniture for the Inspection bungalow. In effect, 4 lakhs persons were employed in the year for 160 days each at Rs.3. To raise the workers above the poverty line, the number of days employed should be increased to 300 and wages to Rs.6, the report points out. A similar conclusion emerges from a study published in the Indian Labour Journal[20] on the legislation on minimum wages for farm workers which shows that only in Punjab are the wages above the poverty level, followed by Gujarat. The widest gaps between wage earned and the poverty line are in Tripura (66.9 per cent), Bihar (63.5 per cent), Orissa (60.8 per cent), UP (47.7 per cent), Maharashtra (41.6 per cent), Kerala (38.8 per cent) and Assam (38.2 per cent). Kerala has one of the highest wage rates as does Punjab, but the average number of days of employment per worker is the lowest at 187. The conclusions of these two studies should guide the National Rural Employment Programme which has been launched this year, with the budget provision of Rs.300 crores. On labour relations and policy, the government reports that in 1979, 37.10 million mandays were lost due to industrial unrest - the highest since 1973, with Bengal leading at 16 million mandays lost followed by Tamil Nadu's 8 million. The State Labour Ministers Conference in September is reported to have agreed to amend the

the Industrial Disputes Act to give the Union government as well as the state governments the power to ban strikes and lockouts "in exceptional circumstances", that is in cases of prolonged strikes and lockouts. It remains to be seen how workers and employers will react in Parliament to this proposal, The other decision laying down 3 conditions before a strike or lockout - namely the exhausting of tripartite negotiations, a ballot with a two-third affirmative vote and a compulsory 14 days notice, - does provide the basis for reducing the number of mandays lost. Finally a national debate is underway for a five day week proposal - as a means of spreading employment and saving on crude oil use. On the latter the government reports that its offices will save annually Rs.39 crores on petrol, Rs.2 crores on diesel and Rs.15 lakhs on electricity. Given the work turned out by the offices on a Saturday, this savings will be a positive element in the balance sheet, and the experiment might be started in government offices, as it is in practice in some business houses.

Political Economy Options

So far I have tried for the most part to use the tools of economic analysis in delineating the various choices facing us at this mid year point. But as hinted at the start, the choices facing us are not those of economics but of political economy. The Review has repeatedly, almost in every section, concluded that the narrowness of the market is the major problem facing us, but the decision to broaden the market and all that that involves, is a matter of political economy.

The VI Plan Frame work begins with a reminder that "our major goal should be the realisation of an economic and social order based on principles of socialism, secularism and self reliance". This has been our stated goal since the Second Plan. Where do we stand today on this goal? (To remove any ambiguity, I should state that I personally subscribe to the goal).

With regard to socialism on the positive side, we have developed a public sector which occupies the commanding heights of the economy or in the words of the latest statement of industrial policy "the pillars of economic infrastructure", we have nationalised the mines and 90 per cent of banks, we have

established the Planning Commission which has developed a technically perfect method of constructing material and financial balances, including income and employment related to normatively determined national income targets, macro economic models and input output matrices, we have drawn up plans for increasing employment and the consumption of the poor majority, and we have special programmes for the "weaker sections", for backward areas and hill tribes. On the other hand, we see that none of our plan targets are realised, that we are a decelerating economy in GNP growth and fluctuating industrial development, that all our programmes for the poor or the weaker sections - whether it be irrigation or electricity for pumpsets (according to the Draft Plan 1978-83 80 per cent of both benefit the large farmers), or the future 40 per cent priority sector for bank credit which at present is 30 per cent (the 1977 RBI Report points out that out of Rs.1,462 crores for small units, 68 per cent went to units with credit limits above Rs.1 lakhs, and while Rs.144 crores out of Rs.300 croes went to farmers with credit limits over Rs1 crore, agricultural labourers and rural poor with credit limits below Rs.10,000 received Rs.80 crores or 9.2 per cent), or loans schemes devised for sick units (IDBI 1979 reports of the 235 units given soft loans, 95 went to normal well off units), or subsidies for backward areas development (RBI 1978 reports over half the subsidies went to units - benami or other - belonging to large firms) - all these end up for the benefit of the affluent and non-poor. As for our land reforms, they have such wide gaps that whole troops of elephants are walking through them. And then we have interpreted socialism as a system of licensing, controls and issue of permits for all facets of industrial activity, with special controls for monopoly houses and big houses, which we then proceed to get round by allowing automatic expansion of capacity, regularising the expansions over the prescribed limits, and giving all manner of concessions for what we call export oriented units. We redefine small units in such a way that the ceiling of Rs.20 to Rs.25 lakhs of plant and equipment which usually is 50 per cent of the project cost means that we are now dealing with Rs.½ crore units as small units, and to that extent in some cases weakening their labour intensity. And this whole control and exemption system, dealing with some Rs.40,000 crores of industrial activity, is entrusted to our officers who from

the peon to the top man are paid such a low salary that it is a standing invitation to bribery, nepotism and corruption. The controls are the main generator of black-money and the parallel economy. In case all this is regarded as some kind of Indian way to socialism, we need to look at the end result of the whole system, which should be people's well being and sense of justice. In the latest statement to Parliament (in July 1980)[21], the government announced, using the results of the 32nd round of NSS, on the basis of a minimum calorie intake of 2,400 in rural and 2,100 in urban areas calling for a per capita monthly expenditures of Rs.65 in rural and Rs.75 in urban areas at 1977-78 prices, that 305 million persons are below this minimum level of living, including 249 million in the rural areas. That this poverty situation is worsening over time is shown in the World Bank[22] studies which indicate that income inequality is more acute in India than in the neighbouring South Asian countries, and is worsening over time within the country. Similarly the NCAER study on income distribution reports that in 1975-76 the lower 50 per cent of households accounted for 25 per cent of the national income, while the upper 13 per cent of households on the other hand account for 40 per cent of national income. In rural households the bottom 50 per cent share 6.8 per cent of rural wealth, while the top 1 per cent of rural households own 14 per cent of land and other rural assets. NCAER unlike the World Bank and other reports shows a lessening of unequal income distribution in the country in the decade 1967-68 to 1975-76, making the usual qualifications to this finding.[23]

As for secularism, on the positive side we have developed a system of coexistence where the many religions live side by side, a system of law which does not recognise any discrimination based on caste or religion, and the freedom to each community to practice its beliefs and rituals freely without state interference. On the other side we must recognise that our political practices and system is shot through and through with casteism and communalism, our business, agriculture and employment world is based on caste and communal realities, and social life disrupted by violence in various forms, stemming from class conflicts against a background of caste and religious affiliations.

In regard to self-reliance, on the positive side, we have developed as fine a body of scientists and technologists as any in the world (though their best work is done in other countries except in the agricultural sciences, where

we are at the point of self-reliance in the technical sense but at a serious social cost), we have developed and practiced the doctrine of non-alignment which is the international expression of self reliance, and we have chalked out blue prints of economic and technological self reliance. In practice, however, we are developing probably the worst form of general higher education in the world, we have given up the practical objective of zero net aid and continue our reliance on foreign grants and loans for our development, we continue a high degree of dependence on imported and unadapted technology and have successfully integrated some 1/10 of our 100 million families into the international well-to-do sections of world society, leaving the poor majority in this and all third world countries to be content without socialist rhetoric and otherwise to fend for themselves.

If there is some element of reality in the above potrayal of how we are executing our goal, then I would suggest that first, all of us face this situation frankly, discuss it openly and search for alternative systems and even goals, if need be.

There are many alternatives that we can choose from. This is not the place to outline them. I wonder, however, if we can agree that socialism, secularism and self reliance must either be practiced fully and faithfully according to their scientific connotation which all of us know about, or as we have interpreted and practiced them, must be set aside and replaced by, ...what? These are the options of political economy that our society faces us with and to which we should address ourselves.

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ANNEXURE - I

of the

VI Five Year Plan 1980-85 : A Framework

Estimate of Gross Domestic Savings & Investment and Aggregate Resources -1980-85

Rs.crores at 1979-80 prices

Sl. No.	Item	Amount
1.	Public Saving	30259
	(i) Budgetary Resources	11252
	(ii) Public Enterprises	19007
2.	Saving of Private non-financial corporate sector including cooperatives	9495
3.	Savings of Financial Institutions	3618
	(i) Public Sector	2525
	(ii) Private Sector	1093
4.	Saving of Household Sector	106275
	(i) Financial Assets	44085
	(ii) Physical Assets	62190
5.	Aggregate Gross Domestic Saving	149647
6.	Net Inflow from abroad	6698
7.	Total Saving available for Gross Investment	156345
8.	Provision for current development outlay in the Public Sector	13500
9.	Aggregate Resources	169845

ANNEXURE - II

of the
VI Five Year Plan 1980-85 : A Framework

Estimate of Financial Resources for the Sixth Plan - 1980-85 : Public Sector

(Rs. crores at 1979-80 prices)

Sl. No.	Item	Amount
1.	Balance from Current Revenue at 1979-80 rates of taxes	13602
2.	Contribution of Public Enterprises	11007
3.	Market Borrowing	18500
4.	Small Savings	6337
5.	Provident Funds	3564
6.	Term Loans from Financial Institutions (Net)	3003
7.	Miscellaneous Capital Receipts	3072
8.	External Assistance and borrowings from other sources (net)	7765
9.	Additional resource mobilisation	19150
10.	Uncovered gap/deficit financing	4000
11.	Aggregate resources	90000

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